Office of the Legislative Auditor

State of Montana

Report to the Legislature

March 1994

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1993

Montana State University

This report contains recommendations concerning:

- Increasing investment income.
- Investment in unrestricted accounts.
- Excess bond reserves.
- Nonresident tuition waiver overawards.

Direct comments/inquiries to:
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93-5

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1991 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

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Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

March 1994

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on Montana State University for fiscal years 1991-92 and 1992-93. The report includes recommendations regarding increasing investment income, investments of unrestricted account balances, excess bond reserves, and nonresident tuition waiver overawards. The university's written response to the audit recommendations is included in the back of the audit report.

We thank the president and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1993

Montana State University

Members of the audit staff involved in this audit were Pete Brustkern, Jean Carstensen-Garrett, John Fine, Wayne D. Guazzo, Scott Hoversland, Charles V. Jensen, D.J. Kimball, and Paul J. O'Loughlin.

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Board of Regents of Higher Education

		Term Expires
Marc Racicot, Governor*		
Nancy Keenan, Superintendent of Public Instruction*		
Dr. Jeff Baker, Commissioner of Higher Education*		
L. Colleen Conroy	Hardin	1994
Cordell Johnson	Helena	1996
Kermit R. Schwanke	Missoula	1997
Paul Boylan	Bozeman	1998
Jim Kaze	Havre	1999
Patrick P. Davidson	Billings	2000
Shane Coleman, Student Regent	Bozeman	1994

*Ex officio members

Commissioner of Higher Education

Dr. Jeff Baker	Commissioner of Higher Education
David L. Toppen	Executive Associate Commissioner for Higher Education
Rod Sundsted	Associate Commissioner for Fiscal Affairs
Laurie O. Neils	Director of Budget and Accounting

Montana State University

Dr. Michael Malone	President
Dr. James Isch	Vice President for Administration
Dr. Robert Swenson	Vice President for Research
Dr. Mark Emmert	Provost and Vice President for Academic Affairs

This listing below serves as a means of summarizing the recommendations contained in the report, the university's response thereto, and a reference to the supporting comments.

Introduction

We performed a financial-compliance audit of Montana State University (university) for the two fiscal years ended June 30, 1993. The objectives of the audit were to:

1. Determine if the university complied with applicable laws and regulations.

2. Make recommendations for improvements in the management and internal accounting controls of the university.

3. Determine the implementation status of prior audit recommendations.

4. Determine if the financial statements present fairly the financial position and results of operations of the university for the two fiscal years ended June 30, 1993.

This report contains 12 recommendations which address areas where administrative and accounting controls, compliance with laws and regulations, and accountability can be improved. Other areas of concern deemed not to have a significant effect on the successful operation of university programs are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

Background

Montana State University was founded on February 15, 1893, as the Agricultural College of the state of Montana. The school was later named Montana State College and on July 1, 1965, it became Montana State University. The university is a land-grant institution as authorized by the Morrill Act of 1862 and receives part of its support from land-grant income as well as from state appropriations, student fees, and federal and private grants.

The public service function of the university originated with the establishment of the Extension Service in 1915, created under

the federal Smith-Lever Act, and state legislation. Financial support for the Extension Service's operation comes from county, state, and federal governments, as well as from private grants. County agents and specialists are an integral part of the university and channel information to Montanans to aid in solving home, farm, and community problems. In January 1990, administrative control of the Fire Service Training School, located in Great Falls, was transferred from the Board of Public Education to the university's Extension Service.

The Agricultural Experiment Station is also an integral part of the university. It was established in 1893 by the Montana Legislature under authorization provided by the federal Hatch Act of 1887. The station receives federal funds under the Hatch Act, as well as state appropriations, federal and private grants, and funds from the sale of surplus agricultural products. The Agricultural Experiment Station has eight locations in the state, in addition to the Bozeman campus. The station components are devoted to solving agricultural and land reclamation problems of local, regional, and national concern. The distribution of research centers is such that the peculiarities of local or area soil, water, and climate can be considered.

Prior Audit Recommendations

Our financial-compliance audit of the university for the two fiscal years ended June 30, 1991, contained 12 recommendations. The university implemented 11 of the recommendations, and partially implemented one recommendation, related to the reporting of federal assistance. The university improved its reporting of federal assistance since the prior audit. University personnel said a data field has been added to the grants and contracts system as of July 1, 1993, to track whether federal assistance comes directly from federal agencies or is a subgrant from state or private entities. Since there was insufficient data available during the audit period to determine implementation of this recommendation, we will test implementation of the grant tracking capability in the next audit.

Investments

The university invests cash from various accounts with the Board of Investments in the Short Term Investment Pool (STIP). University personnel combine investable resources in a single STIP account and distribute earnings to the participating accounts on a proportional basis. We analyzed the balances invested to determine if some of the moneys could be invested for longer terms at higher rates.

University officials projected that $3.7 million dollars could be placed in longer term investments. If this balance had been invested in long term securities at the beginning of the fiscal year at a market rate of 6.5 percent rather than at the STIP rate of 3.58 percent, additional investment earnings for the university would have been $108,040 in fiscal year 1992-93.

University officials also indicated the Board of Investments long term investment accounts are cumbersome to work with, are not user-friendly, and involve more costs and greater risks than STIP. Officials must meet with investment officers periodically in Helena to set portfolio objectives. Officials believe the travel costs associated with these meetings and additional staff costs associated with tracking investments and performing portfolio planning would largely offset improved investment income. Officials also said the spread between long term and short term rates may not be as favorable in other years.

We believe the additional investment income can be attained through prudent use of long term investments. University officials should work with Board of Investments staff to devise procedures which are more cost effective for agencies not based in Helena. In addition, the Board of Investments plans to initiate several new investment pools. These pools will allow investors such as MSU to attain higher yields, spread risk, and maintain liquidity on smaller investments with less administrative cost.

Recommendation #1

We recommend the university:

A. Consider investing a portion of its resources in longer term securities to increase investment income.

B. Work with the Board of Investments staff to devise cost effective procedures for agencies not based in Helena.

Legal Compliance

During our audit of the Montana State University we tested compliance with state and federal laws and regulations related to university operations. The following five report sections discuss instances where the university can improve compliance.

Investment Earnings

The university records revenue from the sale of cattle and agricultural products at the Fort Keogh experiment station in the Unrestricted Fund. University personnel invest excess cash balances of the Fort Keogh account in STIP and record the interest earnings in the account. The STIP balance in the account totalled $634,000 at June 30, 1993.

Under section 20-25-232, MCA, the revenue from the sale of agricultural products by the experiment stations should be used to defray the costs of operating the stations. University officials said they believed the interest earnings had the same restriction as the revenue. However, the statute does not specify the disposition of investment income from these proceeds. Section 17-6-202(2), MCA, states income from investment of cash on hand for all treasury fund accounts shall be deposited in the General Fund unless its use is specifically designated by law or provision of a grant or donation. Therefore, income from investment of cash balances in the Fort Keogh account should be deposited in the General Fund. The university recorded investment earnings of $32,098 and $24,239 in fiscal years 1991-92

and 1992-93, respectively, in the Unrestricted Fund. These amounts should be deposited in the state's General Fund.

Recommendation #2

We recommend the university record investment earnings in compliance with state law.

Excess Bond Reserves

Montana State University (university) participates in the issuance of bonds to fund construction projects, including projects to build new facilities and improve existing ones. At June 30, 1993, the university had three series of bonds outstanding. The covenants pertaining to the bonds required the university to deposit with a trustee amounts which must be held in reserve for payment of the bonds. The 1986 Facilities Refunding Revenue Bond issue has such a requirement in the bond indenture.

We determined that funds deposited with the trustee bank for the 1986 Facilities Refunding Revenue Bond reserve requirement exceed the amount required by the bond indenture. The bond reserve requirement for the debt service reserve and the repair and replacement reserve was $5,840,000. The amount held by the trustee bank exceeded the reserve requirement by approximately $2,350,000 at June 30, 1993.

Section 17-6-105, MCA, requires all state agencies to deposit all moneys with the state treasurer except funds pledged as payment and security of bonds in accordance with covenants related to the bond. Funds deposited with the trustee bank in excess of the bond reserve requirement should be deposited with the state treasurer.

Recommendation #3

We recommend the university monitor bond reserve requirements and deposit excess funds with the state treasurer in accordance with state law.

Nonresident Tuition Waivers

Section 20-25-421(2), MCA, allows the university to waive nonresident tuition in an amount not to exceed 2 percent of the full-time equivalent enrollment during the preceding year. Our review of the nonresident tuition waivers indicates that 205 waivers were awarded in fiscal year 1991-92. Under the statute, only 193 were allowable. The additional awards resulted in the university receiving approximately $28,400 less in fees.

We also noted that waivers are allocated by the president's office for award by the different departments, while the financial aid office is responsible for monitoring the total waivers awarded. University personnel indicated that only total waivers are monitored to ensure the university does not exceed their total waiver allocation. However, individual types of waivers, such as nonresident tuition waivers, are not monitored.

The university should develop a monitoring procedure for nonresident tuition waivers to ensure the number of nonresident waivers awarded complies with state law. Improved communication between the financial aid office and the departments would facilitate effective monitoring of the number of nonresident tuition waivers awarded.

Recommendation #4

We recommend the university monitor the number of nonresident tuition waivers issued to ensure compliance with state law.

Temporary Employees

Temporary employees are hired by the Agricultural Research Centers to assist faculty during peak work periods, such as the growing season, harvest, or calving operations. We noted children of center superintendents have been employed during the summers of 1992 and 1993 at two centers. State nepotism law, sections 2-2-302 and 303, MCA, prohibits management personnel in state departments from hiring certain relatives, including their children.

One superintendent stated he is ultimately responsible for all hiring, firing, and disciplinary decisions for all employees. Center personnel said the temporary employees, who are children of superintendent, are supervised by permanent employees other than the parent. At another center, personnel said the temporary employees who are related to the superintendent are hired and supervised by faculty who report to the superintendent. They said these temporary employees do not work directly for the superintendent. We noted at one center the superintendent signed an employee time sheet for his son and wrote a note on the time sheet stating that the son was not available at the time to sign it himself.

Center superintendents are responsible for overall operations. Since the superintendents have the authority to approve or reject hiring decisions for all temporary employees, we believe the practice of hiring the children of a superintendent who are employed either directly or indirectly by their parent may have violated the state's nepotism statutes.

A university official said the same personnel policies used by the university apply to Agricultural Research Centers. These policies include advertising for temporary employees and use of employment applications. In addition, the official said research center staff should not be directly involved in the hiring, supervision or wage setting for any immediate family member. Had the centers followed university policies, compliance with state statutes would have been maintained, the official said.

Recommendation #5

We recommend the Agricultural Research Centers comply with the state's nepotism law.

Access to Contractor Records

The university contracts directly for repairs and improvements to its physical plant when the contract amount is less than $25,000. State law restricts state agencies from spending money on a contract with a nonstate entity unless the contract contains a provision allowing the legislative auditor and the legislative fiscal analyst access to the contractor's records. We noted the contract used for these physical plant jobs does not include the access language required by state law. University personnel at the physical plant said they use the same contract provisions as the Architecture and Engineering Division of the Department of Administration and were not aware specific language was required.

Recommendation #6

We recommend the university ensure contracts contain provisions for access to contractor records as required by state law.

Internal Controls

Management is responsible for establishing and maintaining a system of internal control. The system should provide management with reasonable assurance that resources are safeguarded against waste, loss, and misuse. The following two report sections discuss areas where the university could improve its controls.

Billing Procedures

When grant projects are opened, the university's Grants & Contracts (G&C) office establishes the billing period for the project. According to written G&C policy, these periods can be monthly, quarterly, or at other intervals as specified in the agreement. Personnel said G&C policy was to bill monthly unless otherwise stated in contracts.

A contract between the Museum of the Rockies, Inc. and the university calls for "cost reimbursable billing, no more than monthly." During our review of the contract files we noted the account was set up for monthly billing. However, the billings are being made on a quarterly basis.

Based on information in the grant files we estimated the average monthly expenditures for the contract to be $42,000. By billing monthly, G&C can improve cash flow and reduce state resources used to fund this contract. We estimate the cost to the university of billing the contract quarterly rather than monthly at $1,470 per year. Personnel indicated there is an unwritten agreement between the university and the museum to bill on a quarterly basis. The university should bill according to a written agreement or follow the billing policy established by G&C.

We also noted a receivable of $1,618 from the Montana State University Foundation (Foundation) has remained outstanding since June 30, 1991. The contract files indicate the Foundation had pledged $23,618 to complete the contract in 1991. As of June 30, 1991 the Foundation had paid $22,000. Although expenditures for additional project costs had been recorded by June 30, 1991, G&C did not bill until March 20, 1992. We observed a handwritten note in the G&C project file that G&C was instructed not to push for collection of the grant. By not billing and collecting accounts receivable, the university has to pay grant expenses from other funds until collection is made. We believe the university should collect the balance due.

Recommendation #7

We recommend the university:

A. Bill for amounts due at the intervals established by contract or G&C policy.

B. Recover $1,618 from the Montana State University Foundation.

Termination Pay

During fiscal years 1991-92 and 1992-93 the university processed approximately 450 classified and professional employee terminations. University policy requires employees to submit their final timecard to the university's personnel services office before termination benefits are paid. In calculating termination benefits, university personnel said they usually prorate the benefits earned in the final month based on the actual number of working days the employee worked in that month.

Three of the five terminations we reviewed contained errors. In one instance, university personnel paid employee vacation and sick leave benefits for the full month when the employee terminated on the 18th of the month. Because vacation and sick leave benefit hours were not prorated, the university overpaid the terminated employee. Two employees received termination benefits without submitting their final timecard. One of these employees was also overpaid because of a clerical error.

The university does not have documented procedures to ensure termination payments are consistently calculated. Written procedures would clarify whether pay for the final month of work is prorated on the number of work days or the number of days elapsed in the month at the time of termination. It would also provide a reference for training employees regarding termination procedures or calculating termination pay. Although the university has a policy regarding submission of final timecards prior to payment of termination, we found cases where the university paid terminated employees without

receiving a final timecard. Personnel attributed the termination problems to human error.

Recommendation #8

We recommend the university:

A. Document procedures for calculating termination payments.

B. Comply with its policy requiring submission of a final timecard upon termination.

Accounting Issues

Section 17-1-102, MCA, requires state agencies to input, before the end of the fiscal year, all transactions necessary to present the receipt, use and disposition of all assets for which the agency is responsible in accordance with generally accepted accounting principles. In the following paragraphs, we discuss several situations in which university records did not comply with generally accepted accounting principles and state accounting policy.

Museum Rent

In 1985, the university issued bonds to finance additions and improvements to the Museum of the Rockies. The bond indenture specified rental payments by the museum for use of the facility as a pledged revenue source. The university did not receive the rental payment of $260,760 due in May 1993 until October 1993. According to generally accepted accounting principles for universities, revenue should be recorded when earned. Even though the lease agreement specified the payment date and amount, university personnel did not accrue revenue or record a receivable on its records. A university official said not recording the rental income at fiscal year-end was an error. By not accruing revenue, the university understated accounts receivable and revenue by $260,760 in the Retirement of Indebtedness Plant Fund on the state's accounting records for fiscal year 1992-93.

Recommendation #9

We recommend the university record revenue due under valid contracts.

Restricted Fund Revenue

We noted several restricted fund accounts which had balances at fiscal year-end. Under generally accepted accounting principles for universities, restricted resources should be recorded as revenue to the extent that the funds received were expended. The fund balances in the restricted fund accounts on the state's accounting records reflect recognition of revenue prior to the occurrence of grant expenses. State accounting policy states that restricted grant receipts in excess of grant expenses should be recorded as deferred revenue. The university overstated revenue and understated deferred revenue by $358,308 in fiscal year 1992-93. University accounting personnel indicated the adjustments were overlooked in error. Extension Service personnel said Extension Service accounts had not been adjusted since the excess was reported to the grantor as carry forward in subsequent fiscal years.

Recommendation #10

We recommend the university defer Restricted Fund revenue in accordance with state accounting policy.

Fixed Asset Adjustments

The university's fixed assets include land, buildings, and equipment. State accounting policy requires that fixed asset balances include construction work in progress, to the extent work is completed, as of each fiscal year-end.

We noted university fixed asset balances on the state's accounting records did not include additions from completed construction activity supervised by the Architecture and Engineering Division of the Department of Administration. As a result, total university fixed assets were understated by $6,447,711 and $11,263,900 at June 30, 1992 and June 30, 1993, respectively. University personnel said adjustments to buildings, improvements and construction work in progress were based on year-end state accounting system reports provided by the department. The university can request updated information prior to the end of the fiscal year to facilitate timely adjustments.

Recommendation #11

We recommend the university obtain and use information on construction activity to update fixed asset balances at fiscal year-end.

Library Inventory Valuation

As of June 30, 1993, the university valued its library collection at $24,032,979. During our audit we noted the university has been using an improper method for valuing inventory deletions. According to university personnel the total inventory amount is decreased $20 for each item which is withdrawn from the library inventory. The amount includes personnel and material costs associated with the deletion rather than the cost of the item.

Generally accepted accounting principles require the value placed on items withdrawn from inventory to reflect the amount capitalized. To accurately report the value of the library collection on the balance sheet, the university should establish procedures for removing the original value of the deleted item.

Recommendation #12

We recommend the university establish a procedure to properly value its library collection.

Independent Auditor's Report & University Financial Statements

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The auditor's opinion issued on Montana State University's financial statements is intended to convey to the reader of the financial statements the degree of reliance which can be placed on the amounts presented.

The unqualified opinion on the financial statements means the reader may rely on the fairness of the amounts presented in the financial statements.

STATE OF MONTANA

Office of the Legislative Auditor

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INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Balance Sheet of Montana State University as of June 30, 1993, and the related the Statement of Changes in Fund Balances and Statement of Current Funds Revenues, Expenditures, and Other Changes for each of the two fiscal years ended June 30, 1993. These financial statements are the responsibility of Montana State University management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State University as of June 30, 1993, the changes in its fund balances and the current funds revenues, expenditures, and other changes for each of the two fiscal years then ended in conformity with generally accepted accounting principles.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 29, 1993

MONTANA STATE UNIVERSITY
BALANCE SHEET
June 30, 1993

ASSETS

CURRENT FUNDS:	
Unrestricted:	
General operating:	
Cash	$ 5,255,688
Accounts receivable	1,024,772
Due from other fund groups	1,022,165
Investments (Note 3)	634,000
Prepaid expenses	411,216
Total general operating	8,347,841
Designated:	
Cash	5,912,692
Accounts receivable	463,267
Due from other fund groups	1,365,149
Investments (Note 3)	260,300
Inventories	424,827
Total designated	8,426,235
Auxiliary enterprises:	
Cash	335,298
Accounts receivable	1,765
Due from other fund groups	86,972
Investments (Note 3)	3,983,500
Inventories	326,815
Total auxiliary enterprises	4,734,350
Total unrestricted	21,508,426
Restricted:	
Cash	868,000
Accounts receivable	5,587,669
Due from other fund groups	71,996
Investments (Note 3)	531,300
Total restricted	7,058,965
Total current funds	$28,567,391
STUDENT LOAN FUNDS:	
Cash	$ 111,338
Loan receivable - less allowance for bad debts	11,111,009
Accounts receivable	2,458
Investments (Note 3)	806,800
Total student loan funds	$12,031,605

See notes to financial statement

LIABILITIES AND FUND BALANCES

CURRENT FUNDS		
Unrestricted:		
General operating:		
Accrued payroll		$ 2,582,406
Accounts payable and accrued liabilities		847,989
Due to other fund groups		1,212,825
Deposits		44,834
Deferred revenue		1,121,492
Compensated absences payable (Note 6)		7,138,148
Fund balance (Note 1)		(4,599,853)
Total general operating		8,347,841
Designated:		
Accrued payroll		725,495
Accounts payable and accrued liabilities		1,083,804
Due to other fund groups		337,365
Deferred revenue		114,916
Compensated absences payable (Note 6)		1,868,198
Fund balance (Note 1)		4,296,457
Total designated		8,426,235
Auxiliary enterprises:		
Accrued payroll		406,769
Accounts payable and accrued liabilities		198,547
Deposits		297,866
Deferred revenue		40,480
Due to other fund groups		290,217
Compensated absences payable (Note 6)		436,697
Fund balance		3,063,774
Total auxiliary enterprises		4,734,350
Total unrestricted		21,508,426
Restricted:		
Accrued payroll		1,512,537
Accounts payable and accrued liabilities		673,471
Due to other fund groups		1,072,107
Deferred revenue		2,529,911
Fund balance		1,270,939
Total restricted		7,058,965
Total current funds		$28,567,391
STUDENT LOAN FUNDS:		
Accounts payable and accrued liabilities		$ 206
Fund balances:		
U.S. Government grants refundable	$10,332,794	
University funds	1,598,667	
Private gifts	99,938	12,031,399
Total student loan funds		$12,031,605

MONTANA STATE UNIVERSITY
BALANCE SHEET
June 30, 1993

ASSETS

ENDOWMENT FUNDS:	
Cash	$ 1,126
Accounts receivable	42
Investments (Note 3)	403,400
Total endowment funds	$ 404,568
PLANT FUNDS:	
Unexpended:	
Cash	$ 1,416,833
Accounts receivable	14,656
Due from other fund groups	7,049
Investments (Note 3)	794,264
Construction advances to state	3
Total unexpended	2,232,805
Renewals and replacements:	
Cash	392,161
Accounts Receivable	565
Due from other fund groups	83,939
Investments (Note 3)	834,100
Total renewals and replacements	1,310,765
Retirement of indebtedness:	
Cash	251,053
Accounts receivable	492,687
Due from other fund groups	20,079
Investments (Note 3)	8,030,050
Total retirement of indebtedness	8,793,869
Investment in plant:	
Land and land improvements	4,346,517
Buildings (including construction in progress)	111,481,152
Equipment	51,604,867
Livestock	2,265,934
Library books	24,032,979
Total investment in plant	193,731,449
Total plant funds	$206,068,888
AGENCY FUNDS:	
Cash	$ 666,591
Accounts receivable	1,610,288
Due from other fund groups	1,233,990
Prepaid expenses	250,000
Investments (Note 3)	713,800
Total agency funds	$ 4,474,669

See notes to financial statement

LIABILITIES AND FUND BALANCES

ENDOWMENT FUNDS:	
Fund Balance	$ 404,568
Total endowment funds	$ 404,568
PLANT FUNDS:	
Unexpended:	
Accounts payable and accrued expenditures	$ 125,861
Due to other fund groups	53,911
Fund balance	2,053,033
Total unexpended	2,232,805
Renewals and replacements:	
Accrued payroll	924
Accounts payable and accrued expenditures	77,240
Due from other fund groups	58,763
Fund balance	1,173,838
Total renewals and replacements	1,310,765
Retirement of indebtedness:	
Accounts payable and accrued expenditures	405,399
Due from other fund groups	44,675
Fund balance	8,343,795
Total retirement of indebtedness	8,793,869
Investment in plant:	
Bonds payable (Note 4)	39,270,000
Other payables: leases	362,006
Net investment in plant	154,099,443
Total investment in plant	193,731,449
Total plant funds	$206,068,888
AGENCY FUNDS:	
Accrued payroll	$ 12,179
Accounts payable and accrued liabilities	1,239,062
Due to other fund groups	921,394
Deposits held in custody for others	2,302,034
Total agency funds	$ 4,474,669

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 1993

	Current Funds						Plant Funds			
	Unrestricted									
	General Operating	Designated	Auxiliary Enterprises	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Revenue and other additions:										
Current funds revenue	$73,550,751	$15,343,510	$18,336,962	$32,873,213	-	-	-	-	-	-
Federal capital contribution	-	-	-	-	$ 367,634	-	-	-	-	-
University capital contribution	-	-	-	-	38,348	-	-	-	-	-
Private capital contribution	-	-	-	-	2,000	$ 918	$ 362,440	-	-	-
Interest on loans receivable	-	-	-	-	251,003	-	-	-	-	-
Student fees	-	-	-	-	-	-	826,741	-	$1,304,411	-
Investment income	-	-	-	-	21,750	1,352	58,418	$34,680	497,425	-
Land grant income (Note 2)	-	-	-	-	-	-	-	-	768,123	-
Debt retirement (Note 4)	-	-	-	-	-	-	-	-	-	$ 928,330
Transfer of bond liability	-	-	-	-	-	-	645,930	-	-	-
Expended for plant facilities (including $6,033,054 charged to current funds)	-	-	-	-	-	-	-	-	-	8,046,404
Activities rental income	-	-	-	-	-	-	-	39,158	335,649	-
Other	-	-	-	-	8,526	-	161,433	218,539	272,491	-
Total revenue and other additions	73,550,751	15,343,510	18,336,962	32,873,213	689,261	2,270	2,054,962	292,377	3,178,099	8,974,734
Expenditures and other deductions:										
Current funds expenditures	72,852,864	13,746,130	13,866,787	31,998,840	-	-	-	-	-	-
Loan cancellations	-	-	-	-	82,199	-	-	-	-	-
Loans assigned	-	-	-	-	7,741	-	-	-	-	-
Expended for plant facilities (including $3,419,516 non-capital expenditures)	-	-	-	-	-	-	3,206,178	2,675,605	-	-
Debt retirement (Note 4)	-	-	-	-	-	-	-	-	795,000	-
Interest on debt	-	-	-	-	-	-	-	-	2,944,082	-
Transfer of bond liability	-	-	-	-	-	-	-	-	-	645,930
Leases	-	-	-	-	-	-	-	-	-	71,449
Other	-	-	-	-	2,105	-	-	-	42,881	-
Total expenditures and other deductions	72,852,864	13,746,130	13,866,787	31,998,840	92,045	-	3,206,178	2,675,605	3,781,963	717,379

See notes to financial statements.

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES (Continued)
YEAR ENDED JUNE 30, 1993

	Current Funds						Plant Funds			
	Unrestricted									
	General Operating	Designated	Auxiliary Enterprises	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Transfers amount funds - additions (deductions):										
Mandatory:										
All fund groups	-	-	$(1,775,000)	-	-	-	$ (50)	-	$1,775,050	-
Voluntary:										
General operating-net	-	$ (50,443)	-	-	-	-	255,000	$ 180,000	-	-
Designated-net	$ 50,443	-	-	-	-	-	504,220	89,344	-	-
Auxiliary enterprises-net	-	-	-	-		-	5,165	2,069,422	(199,675)	-
Unexpended plant-net	(255,000)	(504,220)	(5,165)	-	-	-	-	(108,400)	(1,064,985)	-
Repair and replacement-net	(180,000)	(89,344)	(2,069,422)	-	-	-	108,400	-	(10,000)	-
Retirement of debt-net	-	-	199,675	-	-	-	1,064,985	10,000	-	-
Total transfers	(384,557)	(644,007)	(3,649,912)	-	-	-	1,937,720	2,240,366	500,390	-
Net increase (decrease) in fund balance	$ 313,330	$ 953,373	$ 820,263	$ 874,373	$ 597,216	$ 2,270	$ 786,504	$ (142,862)	$ (103,474)	$ 8,257,355
Fund balances at beginning of year as previously reported	(4,491,736)	3,462,130	2,269,336	915,114	11,433,668	402,298	1,312,148	1,387,472	8,480,210	139,492,786
Adjustments:										
Prior year revenues	(20,914)	156,799	(12,475)	(80,730)	-	-	(237)	-	(32,941)	-
Prior year expenditures	(34,522)	(19,494)	(1,164)	(437,818)	515	-	(45,382)	(70,772)	-	-
Compensated absences payable	(366,011)	(256,351)	(12,186)	-	-	-	-	-	-	-
Other (Note 1)	-	-	-	-	-	-	-	-	-	6,349,302
Total adjustments	(421,447)	(119,046)	(25,825)	(518,548)	515	-	(45,619)	(70,772)	(32,941)	6,349,302
Fund balances at beginning of year as adjusted	(4,913,183)	3,343,084	2,243,511	396,566	11,434,183	402,298	1,266,529	1,316,700	8,447,269	145,842,088
Fund balances at end of year	$(4,599,853)	$4,296,457	$3,063,774	$1,270,939	$12,031,399	$404,568	$2,053,033	$1,173,838	$8,343,795	$154,099,443

See notes to financial statements.

MONTANA STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
YEAR ENDED JUNE 30, 1993

	Unrestricted				
	General Operating	Designated	Auxiliary Enterprises	Restricted	Total
Revenues:					
Tuition and fees	$18,417,728	$ 1,639,922	-	$ 63,848	$ 20,121,498
Federal appropriations	4,158,787	-	-	-	4,158,787
State appropriations	49,820,034	-	-	137,794	49,957,828
Federal grants and contracts	165,845	20,367	-	24,151,769	24,337,981
State grants and contracts	-	-	-	2,110,082	2,110,082
Private gifts, grants, and contracts	-	31,867	-	5,502,563	5,534,430
Other sources	255,884	-	-	32,784	288,668
Sales and service	732,473	13,651,354	$18,336,962	-	32,720,789
Total revenue	73,550,751	15,343,510	18,336,962	31,998,840	139,230,063
Expenditures and mandatory transfers:					
Education and general					
Instruction	33,140,800	597,133	-	276,241	34,014,174
Research	9,648,645	2,957,246	-	14,438,958	27,044,849
Public service	4,822,211	1,795,816	-	8,002,165	14,620,192
Academic support	6,509,195	5,260,612	-	171,625	11,941,432
Student services	5,039,788	3,002,180	-	364,280	8,406,248
Institutional support	5,578,339	53,949	-	692,398	6,324,686
Operation and maintenance of plant	6,341,839	79,194	-	77,012	6,498,045
Scholarships and fellowships	1,772,047	-	-	7,951,116	9,723,163
Other	-	-	-	25,045	25,045
Education and general expenditures	72,852,864	13,746,130	-	31,998,840	118,597,834
Auxiliary enterprises:					
Expenditures	-	-	13,866,787	-	13,866,787
Mandatory transfers	-	-	1,775,000	-	1,775,000
Total designated and auxiliary	-	-	15,641,787	-	15,641,787
Total expenditures and mandatory transfers	72,852,864	13,746,130	15,641,787	31,998,840	134,239,621
Other transfers and additions (deductions):					
Excess of restricted receipts over transfers to revenue	-	-	-	874,373	874,373
Transfers	(384,557)	(644,007)	(1,874,912)	-	2,903,476)
Net increase (decrease) in fund balance	$ 313,330	$ 953,373	$ 820,263	$ 874,373	$ 2,961,339

See notes to financial statements.

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 1992

	Current Funds						Plant Funds			
	Unrestricted									
	General Operating	Designated	Auxiliary Enterprises	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Revenue and other additions:										
Current funds revenue	$71,496,850	$14,470,379	$16,087,828	$31,249,163	-	-	-	-	-	-
Federal capital contribution	-	-	-	-	$ 418,681	-	-	-	-	-
University capital contribution	-	-	-	--	38,370	-	-	-	-	-
Private capital contribution	-	-	-	-	-	$ 387	-	-	-	-
Interest on loans receivable	-	-	-	-	225,329	-	-	-	-	-
Student fees	-	-	-	-	-	-	$ 837,757	-	$1,292,076	-
Investment income	-	-	-	-	27,862	758	100,673	$42,161	632,646	-
Land grant income (Note 2)	-	-	-	-	-	-	-	-	720,676	-
Debt retirement (Note 4)	-	-	-	-	-	-	-	-	-	$ 1,103,742
Transfer of bond liability	-	-	-	-	-	-	296,680	-	-	-
Expended for plant facilities (including $5,757,289 charged to current funds)	-	-	-	-	-	-	-	-	-	6,772,708
Activities rental income	-	-	-	-	-	-	-	43,041	596,655	-
Other	-	-	-	-	5,250	-	83,483	27,627	278,532	-
Total revenue and other additions	71,496,850	14,470,379	16,087,828	31,249,163	715,492	1,145	1,318,593	112,829	3,520,585	7,876,450
Expenditures and other deductions:										
Current funds expenditures	70,280,153	12,053,726	12,972,315	30,809,858	-	-	-	-	-	-
Loan cancellations	-	-	-	-	49,216	-	-	-	-	-
Expended for plant facilities (including $2,347,321 non-capital expenditures)	-	-	-	-	-	-	1,246,043	2,116,697	-	-
Debt retirement (Note 4)	-	-	-	-	-	-	-	-	735,000	-
Interest on debt	-	-	-	-	-	-	-	-	3,001,075	-
Transfer of bond liability	-	-	-	-	-	-	-	-	-	296,680
Leases	-	-	-	-	-	-	-	-	-	228,672
Other	-	-	-	-	-	-	-	-	43,305	-
Total expenditures and other deductions	70,280,153	12,053,726	12,972,315	30,809,858	49,216	-	1,246,043	2,116,697	3,779,380	525,352

See notes to financial statements.

MONTANA STATE UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES (Continued)
YEAR ENDED JUNE 30, 1992

	Current Funds						Plant Funds			
	Unrestricted									
	General Operating	Designated	Auxiliary Enterprises	Restricted	Loan Funds	Endowment and Similar Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Transfers amount funds - additions (deductions):										
Mandatory:										
All fund groups	-	-	$(2,032,736)	-	-	-	-	-	$2,032,736	-
Voluntary:										
General operating-net	-	$ (73,336)	-	-	-	-	$ 10,000	$ 22,761	-	-
Designated-net	$ 73,336	-	-	-	-	-	62,430	58,500	-	-
Auxiliary enterprises-net	-	-	-	-		-	(21,993)	812,374	(175,000)	-
Unexpended plant-net	(10,000)	(62,430)	21,993	-	-	-	-	(13,037)	40,420	-
Repair and replacement-net	(22,761)	(58,500)	(812,374)	-	-	-	13,037	-	(1,362,300)	-
Retirement of debt-net	-	-	175,000	-	-	-	(40,420)	1,362,300	-	-
Total transfers	40,575	(194,266)	(2,648,117)	-	-	-	23,054	2,242,898	535,856	-
Net increase (decrease) in fund balance	$1,257,272	$2,222,387	$ 467,396	$ 439,305	$ 666,276	$ 1,145	$ 95,604	$ 239,030	$ 277,061	$ 7,351,098
Fund balances at beginning of year as previously reported	(5,127,138)	1,490,284	1,933,138	848,839	10,629,147	400,031	1,218,325	1,149,342	8,205,694	134,267,918
Adjustments:										
Prior year revenues	(178,604)	158,397	(110,814)	(233,457)	138,245	1,122	(2,561)	(900)	(1,924)	-
Prior year expenditures	(52,902)	(133,206)	(18,375)	(139,573)	-	-	780	-	(622)	-
Compensated absences payable	(390,364)	(275,732)	(2,009)	-	-	-	-	-	-	-
Other (Note 1)	-	-	-	-	-	-	-	-	-	(2,126,230)
Total adjustments	(621,870)	(250,541)	(131,198)	(373,030)	138,245	1,122	(1,781)	(900)	(2,546)	(2,126,230)
Fund balances at beginning of year as adjusted	(5,749,008)	1,239,743	1,801,940	475,809	10,767,392	401,153	1,216,544	1,148,442	8,203,148	132,141,688
Fund balances at end of year	$(4,491,736)	$3,462,130	$2,269,336	$915,114	$11,433,668	$402,298	$1,312,148	$1,387,472	$8,480,209	$139,492,786

See notes to financial statements.

MONTANA STATE UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
YEAR ENDED JUNE 30, 1992

	Unrestricted				
	General Operating	Designated	Auxiliary Enterprises	Restricted	Total
Revenues:					
Tuition and fees	$13,554,648	$ 1,600,190	-	$ 12,799	$ 15,167,637
Federal appropriations	3,886,484	-	-	-	3,886,484
State appropriations	52,701,585	-	-	146,711	52,848,296
Federal grants and contracts	213,923	22,454	-	21,690,297	21,926,674
State grants and contracts	-	-	-	2,728,752	2,728,752
Private gifts, grants, and contracts	-	27,584	-	6,184,141	6,211,725
Other sources	237,957	-	-	47,158	285,115
Sales and service	902,253	12,820,151	$16,087,828	-	29,810,232
Total revenue	71,496,850	14,470,379	16,087,828	30,809,858	132,864,915
Expenditures and mandatory transfers:					
Education and general					
Instruction	30,250,986	523,431	-	270,710	31,045,127
Research	9,666,470	2,291,087	-	15,207,934	27,165,491
Public service	4,683,317	1,782,173	-	6,729,138	13,194,628
Academic support	6,237,405	4,012,784	-	187,587	10,437,776
Student services	4,926,126	3,087,942	-	133,835	8,147,903
Institutional support	6,372,959	306,476	-	294,345	6,973,780
Operation and maintenance of plant	6,764,382	49,833	-	67,740	6,881,955
Scholarships and fellowships	1,378,508	-	-	7,883,228	9,261,736
Other	-	-	-	35,341	35,341
Education and general expenditures	70,280,153	12,053,726	-	30,809,858	113,143,737
Auxiliary enterprises:					
Expenditures	-	-	12,972,315	-	12,972,315
Mandatory transfers	-	-	2,032,736	-	2,032,736
Total designated and auxiliary	-	-	15,005,051	-	15,005,051
Total expenditures and mandatory transfers	70,280,153	12,053,726	15,005,051	30,809,858	128,148,788
Other transfers and additions (deductions):					
Excess of restricted receipts over transfers to revenue	-	-	-	439,305	439,305
Transfers	40,575	(194,266)	(615,381)	-	(769,072)
Net increase (decrease) in fund balance	$ 1,257,272	$2,222,387	$ 467,396	$ 439,305	$4,386,360

See notes to financial statements.

MONTANA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 1993

1. Summary of significant accounting policies

Montana State University:

Montana State University, Montana Agricultural Experiment Station, Montana Extension Service, and Fire Service Training School are related through common management and control; however, they are separate and distinct agencies as reported on the Statewide Budgeting and Accounting System (SBAS). They receive separate federal and state appropriations. Montana State University's financial statements are included as a component part of the State of Montana Comprehensive Annual Financial Report (CAFR).

Governance for the Fire Service Training School was transferred from the Board of Public Education to the Board of Regents during the 51st Legislative Session. The Board of Regents administratively assigned the Fire Service Training School to the Montana Extension Service effective July 1, 1990.

Financial statements:

The accompanying financial statements have been prepared on the accrual basis in accordance with generally accepted accounting principles for colleges and universities.

The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period and does not purport to present the results of operations or the net income or loss for the period.

Fund balance for unrestricted general operating funds includes the unfunded liability of $7,138,148 for compensated absences payable.

Fund accounting:

The accounts of the University are maintained in accordance with the principles of fund accounting wherein resources are classified for accounting purposes into funds that are identified by the limitations and restrictions placed upon their use. Separate accounts are maintained for each fund; however, accounts with common characteristics are combined into fund groups and reflected as such in the accompanying financial statements. The common characteristics of the funds contained in the various fund groups are as follows:

Current funds:

The current funds group includes economic resources expendable in performing the primary objectives of the University, i.e., Instruction, Research and Public Service. The current funds group has two basic distinct sub-groups: unrestricted funds which have no expenditure restrictions, and restricted funds which have expenditure restrictions. Unrestricted current funds are comprised of the following:

General Operating - utilized for general operations in performing the primary objectives of the University.

Designated - utilized for educational related service activities; these funds are separately classified in order to accumulate and distinguish the costs of specialized service function areas.

Auxiliary Enterprises - utilized in providing essential on-campus services primarily to students, faculty, and staff.

Student loan funds:

The resources from this group of funds are available to students to aid in financing their education. Funds for the loans are provided by private and University sources with the majority of the funds being provided by the Federal Government.

Endowment funds:

Endowment funds are funds with specific restrictions negating the expenditure of the principal. Generally, the principal is to be maintained in perpetuity and invested for the purpose of producing income.

Plant funds:

Plant funds are separated into four distinct self-balancing sub-group accounts:

Unexpended plant - utilized for acquisition of long-term institutional assets.

Renewal and replacement - utilized for long-term institutional asset maintenance.

Retirement of indebtedness - utilized for interest and debt retirement.

Investment in plant - denotes the cost of long-term institutional assets and related liabilities.

Agency:

This fund is used where the University acts in a custodian or fiscal agent capacity for individual students, faculty, staff or qualified organizations.

Inventories:

Inventories, which consist mainly of food and operating supplies, are valued at cost (first-in, first-out method).

Investments:

Investments are carried at cost, which approximate market value at June 30, 1993.

Plant and equipment:

Livestock is carried at current market value with any difference from the prior year values recorded in the plant fund. Livestock

is purchased and raised for experimental purposes; the revenue from livestock sales are recorded in the general operating fund, except when a breeding animal is sold and is expected to be replaced; then sales proceeds are recorded in designated funds and used for replacements as needed.

Depreciation:

No provision has been made for depreciation of plant facilities in accordance with generally accepted accounting principles for colleges and universities.

Allowances for bad debts:

Except for Deferred Fee Payment Plan entity in the general operating fund, an allowance for bad debts has not been recorded. Losses from bad debts in other funds are recorded as adjustments to revenue in the year in which they are deemed uncollectible.

Allocated for encumbrances:

The University records encumbrances of general operating funds as expenditures in conformance with state accounting policy.

The University had encumbered $154,042 at June 30, 1992 and $490,808 at June 30, 1993, of general operating funds that are not included in expenditures in the accompanying financial statements. The accrual basis of accounting provides that expenditures include only amounts associated with goods and services received and that liabilities include only the unpaid amounts associated with such transactions.

Unearned tuition and fees:

Summer school tuition and fee revenues are deferred at June 30 and recorded as revenue in the succeeding fiscal year.

2. Land grant income

Montana State University benefits from two separate land grants. The first granted 90,000 acres for the University under provisions of the Morrill Act of 1862 and the second, under the Enabling Act of 1889, granted an additional 50,000 acres for the University.

Under provisions of both grants, income from the sale of land and land assets must be reinvested and constitutes, along with the balance of the unsold land, a perpetual endowment fund. The state of Montana, Board of Land Commissioners, administers both grants and holds all assets.

Investment income from the first and second grant is currently pledged to the retirement of indenture revenue bonds and is reported as revenue in the retirement of indebtedness fund.

3. Investments

Investments at June 30, 1993 consist of the following:

	FY93
State of Montana short-term investment pool	$ 8,864,400
U.S. Treasury securities, held by trustees in the entity's name	8,127,114
	$16,991,514

The investments at June 30, 1993 are owned by the following funds:

	FY93
Current funds:	
General Operating	$ 634,000
Designated	260,300
Auxiliary enterprises	3,983,500
Restricted	531,300
Loan funds	806,800
Endowment funds	403,400
Plant funds:	
Unexpended plant	794,264
Renewals and replacements	834,100
Retirement of indebtedness	8,030,050
Agency	713,800
	$16,991,514

4. Bonds payable

Revenue Bonds payable at June 30, 1993 with annual principal payments and interest rates, are as follows:

Fiscal Year	1985 B		1986 A		1987 A		Total Amount Payment
1994	$ 680,000	8.00%	$110,000	6.60%	$ 170,000	6.65%	$ 960,000
1995	735,000	8.25	$ 155,000	6.75	185,000	6.80	1,075,000
1996	800,000	8.50	205,000	6.90	205,000	6.90	1,210,000
1997	745,000	8.65	380,000	7.00	165,000	7.00	1,290,000
1998	0		1,250,000	7.10	105,000	7.20	1,355,000
1998-2009	0		32,735,000	7.20%-7.40	645,000	7.40%-8.00	33,380,000
	$2,960,000		$34,835,000		$1,475,000		$39,270,000

Debts refunded, issued, and escrowed

Issuance of November 1, 1985 Series B Indenture:

An original issue of $6,530,000 dated November 1, 1985 consisting of fully registered bonds without coupons, 5.50 percent to 8.65 percent, principal maturing serially on November 15, 1986 through 1996, for the addition of 63,600 square feet to the Museum of the Rockies, including facilities for a planetarium, art collection, exhibits, auditoriums, classrooms, offices, storage, and preparation areas.

Issuance of August 15, 1986 Series A Indenture:

An original issue of $34,835,000 dated August 15, 1986 consisting of fully registered bonds without coupons, 6.6 percent to 7.40 percent, principal maturing serially on November 15, 1993 through 2009, for the refunding of all bonds outstanding under the October 1, 1985 and September 1, 1985 Indentures.

Refunded Bonds:

The 1986 Series A Indenture consisted of $5,010,000 of Serial Bonds and $29,825,000 of Term Bonds. These proceeds, together with certain other funds and monies, were used to advance refund and defease certain bond issues already outstanding. In prior years, the Board of Regents of Higher Education and Montana State University issued revenue refunding bonds, the proceeds of which were also used to advance refund and defease certain bond issues already outstanding. The proceeds of the refunding issues were placed in irrevocable escrow accounts held by a Trustee and were invested in U.S. Treasury obligations that, together with interest earned thereon, will be sufficient for payment of principal and interest on

the refunded issues. Accordingly, the debt is considered defeased for financial reporting purposes and the liability for the defeased bonds is not included in the financial statements. As of June 30, 1993, the defeased bonds outstanding total $58,538,000.

Issuance of June 15, 1987 Indenture:

An original issue of $2,325,000 dated June 15, 1987 consisting of fully registered bonds without coupons, 5.10 percent to 8.00 percent, principal maturing serially on January 1, 1988 through 2003, for the acquisition, construction, repair, remodeling, replacement, renovation, improvement, furnishing, and equipping of new and existing facilities at the University.

5. Retirement plans

Full-time employees of Montana State University are all members of the Public Employees' Retirement System (PERS), Teacher's Retirement System (TRS) the Optional Retirement Program (ORP), Federal Employees' Retirement System (FERS) or the U.S. Civil Service Retirement System (CSRS). ORP started in January of 1988, is underwritten by the Teachers' Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF). Only faculty and staff with contracts under the authority of the Board of Regents may elect the TRS or the ORP. Pension Benefit Obligation is not available on an agency basis, but is available on a statewide basis from the Montana Retirement systems or TIAA-CREF.

ORP - The ORP is a defined contribution plan. The benefits at retirement depend upon the amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Montana State University records employee/employer contributions, and remits monies to TIAA-CREF. Individuals are immediately vested with contributions.

TRS - This mandatory system established in 1937 and governed by Title 19, Chapter 4, MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, vocational-technical center or unit of the University System. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for accrual benefits is 1/60 times creditable service times the average final compensation. Rights are vested after 5 years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits.

PERS - This mandatory system established in 1945 and governed by Title 19, Chapter 3, MCA, provides retirement services to substantially all public employees. Benefit eligibility is age 60 with at least 5 years of service: age 65 regardless of service: or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least 5 years of service. Monthly retirement benefits are determined by

taking 1/56 times the number of years of service times the final average salary. Members rights become vested after 5 years of service.

FERS - This plan was signed into law in 1986 and is available to Federal employees joining the Extension Service staff without a break in service. This retirement plan contains defined benefit plan components, a Basic Benefit Plan and Social Security, and a defined contribution component, the Thrift Savings Plan (TSP). Basic benefits can be received at age 55 with as little as 10 years of service; minimum retirement benefits at age 62 with 5 years of service. The formula for basic benefits is 1% times the highest consecutive three-year-average salary times years of service. At age 62, retirees are eligible for cost of living adjustments on retirement benefits. The TSP benefits at retirement depend upon the amount of employer contributions, employee voluntary contributions and investment gains and losses.

CSRS - This retirement plan is authorized under the Smith-Lever Act of 1914 as amended and is available to Federal employees joining the Extension Service staff without a break in service. CSRS is a defined benefit plan. The retirement benefits are based upon the highest consecutive three-year-average salary. Retirees are eligible for cost of living adjustments the year after retirement. Benefits can be received at age 55 with 30 years of service, age 60 with 20 years of service, or age 62 with five years of service.

FY93	PERS	TRS	ORP	CSRS	FERS
Covered Payroll[1]	$22,285,247	$27,929,023	$15,564,676	$ 2,069,282	$ 780,572
Total Payroll	72,039,896	72,039,896	72,039,896	72,039,896	72,039,896
Employer Contributions	1,459,684	2,784,103[2]	460,092	144,850	100,694
% of Covered Payroll	6.550	7.459	2.956	7.000	12.900
Employee Contributions	1,459,684	1,967,320	1,096,375	144,850	6,245
% of Covered Payroll	6.550	7.044	7.044	7.000	.800

[1]Covered payroll excludes students employed under the College Workstudy programs and part-time student employees.

[2]For ORP Participants, a total of $460,092 or 4.503% was contributed to TRS as employer contributions to amortize past service unfunded liability in accordance with Title 19, Chapter 21, MCA.

6. Commitments and contingencies

Compensated absences payable:

As of December 31 of each year, employees can accumulate vacation leave up to twice the number of leave days earned annually and sick leave can be accumulated without limitation. Upon termination, the employee is paid the accumulated vacation leave and 25 percent of the accumulated sick leave. Vacation and sick leave payments are recorded as an expenditure at the time they are paid to the employee.

Due to system limitations, the change in the compensated absences payable amount is stated as an adjustment and not identified with the fiscal period earned or utilized by the employee.

Capital projects:

As of June 30, 1993, the University has initiated construction on the following major capital projects:

Project	Authorized	Expenditures as of 6/30/93
Museum indenture project	$ 6,200,000	$ 6,200,000
1984B on campus living constr.	4,592,000	4,505,546
Auxiliary storage facility	250,000	209,587
Hedges food service re-roof	250,000	11,663
Boiler #3 replacement	346,000	0
Steam Condensate phase II	300,000	0
Hedges remodel planning	475,000	427,682
Campus networking	1,331,703	61,627
SUB bowling lane resurface	40,500	31,741
Culbertson renovation	472,770	386,797
	$14,257,793	$11,834,643

Leases:

The University reserves the right to limit the amount of expenditures associated with lease contracts without penalty when, in the sole judgment of the University, annual funding or program changes necessitate. Capital lease agreements for various purposes and time periods total $417,009 at June 30, 1993. The annual payments are:

Fiscal Year	Principal	Interest	Total
1993-94	$127,647	$25,366	$153,013
1994-95	107,180	15,421	122,601
1995-96	66,523	8,428	74,951
1996-97	42,136	4,326	46,462
1997-98	18,520	1,462	19,982
1998 on	-	-	-
Total	$362,006	$55,003	$417,009

Early Retirement Incentive Program:

House Bill 517 of the 1993 Montana Legislature established a limited-term, voluntary termination program for both classified and contract employees. If an employee opts to terminate under this plan, the state agency must provide an incentive that is approximately equivalent to three years of both the employee's and employer's contribution to the appropriate retirement division.

7. Student FTE

Effective Fall, 1991, Montana State University converted to the semester system. Summer 1991 FTEs were calculated using the quarter calculation and Fall 1991 and Spring 1992 using the semester calculation.

Session	Year	Undergraduate FTEs Reported[1]	Graduate FTEs Reported[2]	Total FTEs [3]
Summer	1991	1,010	343	1,353
Fall	1991	8,557	495	9,052
Spring	1992	8,549	508	9,057
Annual[4]	1991-92	9,890	616	9,505

[1] Undergraduate quarterly credit hours divided by 15.

[2] Graduate quarterly credit hours divided by 12.

[3] Includes both Unrestricted and Restricted funded FTEs.

[4] In accordance with CHE policy annual FTE under the quarter system is calculated by total undergraduate credit hours divided by 45 and total graduate credit hours divided by 36. To calculate annual FTE under the semester system, the total undergraduate credits is divided by 30 and the total graduate credit hours is divided by 24.

Session	Year	Undergraduate FTEs Reported[1]	Graduate FTEs Reported[2]	Total FTEs [3]
Summer	1992	960	262	1,222
Fall	1992	9,011	480	9,491
Spring	1993	8,646	532	9,178
Annual[4]	1992-93	9,309	637	9,946

[1] Undergraduate semester credit hours divided by 15.

[2] Graduate semester credit hours divided by 12.

[3] Includes both Unrestricted and Restricted funded FTEs.

[4] In accordance with CHE policy annual FTE is calculated by total undergraduate credit hours divided by 30 and total graduate credit hours divided by 24.

8. Subsequent Events

The Board of Regents authorized the issuance of $26,000,000 aggregate principal Revenue Bonds, Series A 1993, the refunding and cash defeasance of Revenue Bonds, Series A 1986 on September 23, 1993. The bonds will provide funds to finance the costs of acquisition, construction,improvement, repair, replacement, renovation, furnishing, and equipping of certain auxiliary facilities at or for Montana State University.

University Response

MONTANA STATE UNIVERSITY
1893•CENTENNIAL•1993

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FEB 15 1994

February 10, 1994

Mr. Scott Seacat
Legislative Auditor
P.O. Box 201705
Helena, MT 59620-1705

Dear Mr. Seacat:

The responses of Montana State University to the audit recommendations made relative to the audit report on Montana State University, the Cooperative Extension Service, and the Agricultural Experiment Station financial activity for the two fiscal years ended June 30, 1993 are submitted herewith. As clearly reflected by the number and magnitude of the audit recommendations contained in your report, it is obvious that we remain committed to continuing our efforts to operate as efficiently and effectively as possible, while still maintaining compliance with the applicable State and Federal regulations and policies which govern our daily activities.

The evidence of sound and responsible financial and business management is contained in the audit report. We believe that progress is continuing to be made in our daily business affairs and in improving our service delivery to our students and the residents of the State of Montana. Despite the many barriers which are continually placed in front of us, and the challenges we face as a result of continuing reductions in State support, we are proud to have once again received an unqualified audit opinion on our financial statements.

We look forward to meeting with the Audit Committee to discuss the audit report and our responses, as well as any other issues which may be of interest to them.

Sincerely,

Michael P. Malone
President

RECOMMENDATION NO. 1:

WE RECOMMEND THE UNIVERSITY:

A. CONSIDER INVESTING A PORTION OF ITS RESOURCES IN LONGER TERM SECURITIES TO INCREASE INVESTMENT INCOME.

B. WORK WITH THE BOARD OF INVESTMENTS STAFF TO DEVISE COST EFFECTIVE PROCEDURES FOR AGENCIES NOT BASED IN HELENA.

RESPONSE NO. 1:

A. WE CONCUR. Our only funds which are stable and which could actually be invested in longer term securities are our Endowment Fund monies, which total approximately $410,000 in 29 entities. The remainder of the funds in the STIP balance represent a pool of monies from about 205 entities in the Auxiliary Fund, the Plant Fund, the Student Loan Fund, and the student monies in the Designated Fund. By virtue of the nature of the accounts in these funds, the balances fluctuate considerably. After each fee payment, many of these balances increase significantly, and are then gradually decreased as operating expenses are paid during the next six months.

B. WE CONCUR. We have explored the option of investing in longer term securities with the Board of Investments. It is our understanding that we must visit the Board of Investments each time we increase our long term investment to: 1) complete a long term investment agreement, 2) select the mix of investments, and 3) distribute the earnings manually. Our resources simply do not allow us to participate in this labor-intensive activity, though we would be happy to if the Board of Investments revises the process to make it less cumbersome to participate.

The University recorded total STIP interest earnings for FY93 of $451,118. Following our November 1993 revenue bond restructuring, our pooled STIP investment balances have decreased by over $9 million. We would nonetheless like to take advantage of longer term investments in higher yielding securities when the opportunity arises, but during this period of declining resources and legislative concerns with administrative "bloat", we do not believe that it would be prudent to add half an FTE in order to take advantage of a 3% interest gain on $410,000. If resources allowed us or the Board of Investments to develop and implement an automated interest distribution for all the entities participating in the long term pooled investment, we could perhaps give stronger consideration to the long term investment opportunities.

RECOMMENDATION NO. 2:

WE RECOMMEND THE UNIVERSITY RECORD INVESTMENT EARNINGS IN COMPLIANCE WITH STATE LAW.

RESPONSE NO. 2:

WE CONCUR. We believe that we are in compliance with MCA 20-25-232, which states that the revenue from the sale of agricultural products by the experiment stations should be used to defray the costs of operating the stations. In about 1980, the Legislative Fiscal Analyst reviewed the investment earnings of the experiment stations, and approximately $100,000 from other entities was returned to the State General Fund. However, the earnings from the entity in question were allowed to remain to support the Miles City operations.

There is no General Fund support appropriated to the operations of the Livestock & Range Research Station. We remain committed to our belief that the intent of the language in the Statute is being met by retaining the revenues generated from the sale of agricultural products, including the interest earnings on those revenues, for investment in furthering the research programs of the Agricultural Experiment Station. Thus, we will seek Legislative clarification of this matter during the next regular session of the Montana Legislature.

RECOMMENDATION NO. 3:

WE RECOMMEND THE UNIVERSITY MONITOR BOND RESERVE REQUIREMENTS AND DEPOSIT EXCESS FUNDS WITH THE STATE TREASURER IN ACCORDANCE WITH STATE LAW.

RESPONSE NO. 3:

WE CONCUR. We believe that the Revenue Bond Indenture in question requires the reserve funds to assure the bond holders that we can: 1) maintain our revenue-producing facilities, 2) fully fund the operations, and 3) make the debt service payments as required. Monies in excess of the reserve requirements are allowed to accumulate in order to fund the costly repair and maintenance projects which are required for the facilities, and to defease outstanding bonds as we are able.

The covenants in the Indenture were recently clarified so that all funds are pledged as payment and security for the indenture. Thus, this should no longer be an issue.

RECOMMENDATION NO. 4:

WE RECOMMEND THE UNIVERSITY MONITOR THE NUMBER OF NON-RESIDENT TUITION WAIVERS ISSUED TO ENSURE COMPLIANCE WITH STATE LAW.

RESPONSE NO. 4:

WE CONCUR. The number of non-resident waivers awarded for the 1991-92 academic year did exceed the 2% cap, but the budget allocation for that year was actually under-utilized by more than $56,000. The University has now established specific procedures to assure strict adherence to State law with respect to tuition fee waivers.

RECOMMENDATION NO. 5:

WE RECOMMEND THE AGRICULTURAL RESEARCH CENTERS COMPLY WITH THE STATE'S NEPOTISM LAW.

RESPONSE NO. 5:

WE CONCUR. It should be noted that faculty members are not allowed to hire their own relatives or supervise them. However, faculty are responsible for the hiring of personnel for their projects, and they are totally responsible for those personnel, including setting the wage rates, supervision, and termination, regardless of whether the students are relatives of other employees at the research centers. The Agricultural Research Station is committed to reinforcing the policy of proper documentation of temporary employee hires and carefully following the University personnel policies.

RECOMMENDATION NO. 6:

WE RECOMMEND THE UNIVERSITY ENSURE CONTRACTS CONTAIN PROVISIONS FOR ACCESS TO CONTRACTOR RECORDS AS REQUIRED BY STATE LAW.

RESPONSE NO. 6:

WE CONCUR. The University uses the Standard Construction Contract provided by the Architecture & Engineering Division of the State Department of Administration. Article IX of the General Conditions of the Contract stipulates that all records

pertaining to the project shall be kept on a generally recognized accounting basis and shall be available to the owner or his authorized representative at mutually convenient times for a period of three years after completion and acceptance of the project by the owner. Thus, if this does not meet the legal access requirements cited by the auditors, then they should specifically direct this recommendation to the State Department of Administration.

RECOMMENDATION NO. 7:

WE RECOMMEND THE UNIVERSITY:

A. BILL FOR AMOUNTS DUE AT THE INTERVAL ESTABLISHED BY CONTRACT OR G&C POLICY.
B. RECOVER $1,618 FROM THE MONTANA STATE UNIVERSITY FOUNDATION.

RESPONSE NO. 7:

A. WE CONCUR. The contracts used by the G&C Office will be modified to reflect the specific billing cycles.

B. WE CONCUR. The G&C Office accountants have billed the MSU Foundation for the full amount, and have requested and received full and final payment for the contract in question.

RECOMMENDATION NO. 8:

WE RECOMMEND THE UNIVERSITY:

A. DOCUMENT PROCEDURES FOR CALCULATING TERMINATION PAYMENTS.
B. COMPLY WITH ITS POLICY REQUIRING SUBMISSION OF A FINAL TIMECARD UPON TERMINATION.

RESPONSE NO. 8:

A. WE CONCUR. The University Personnel Services Office has developed and implemented written procedures to ensure that all termination payments are calculated correctly. The procedures include a checklist for records clerks to use in monitoring the steps in the termination process.

B. WE CONCUR. The checklist includes a place to verify that the final timecard has been received for the termination.

RECOMMENDATION NO. 9:

WE RECOMMEND THE UNIVERSITY RECORD REVENUE DUE UNDER VALID CONTRACTS.

RESPONSE NO. 9:

WE CONCUR. This was a one-time oversight and hopefully will not occur again.

RECOMMENDATION NO. 10:

WE RECOMMEND THE UNIVERSITY DEFER RESTRICTED FUND REVENUE IN ACCORDANCE WITH STATE ACCOUNTING POLICY.

RESPONSE NO. 10:

WE CONCUR. We will make every reasonable effort to accurately adjust revenues during the fiscal year end adjustment period to record deferred restricted fund revenue.

RECOMMENDATION NO. 11:

WE RECOMMEND THE UNIVERSITY OBTAIN AND USE INFORMATION ON CONSTRUCTION ACTIVITY TO UPDATE FIXED ASSET BALANCES AT FISCAL YEAR-END.

RESPONSE NO. 11:

WE CONCUR. We will continue to make every reasonable effort to update fixed asset balances during fiscal year-end, despite the several conflicting current deadline constraints. Our current procedures allow us to provide fixed asset balances at fiscal year-end that require an immaterial adjustment (less than 10%) per fixed asset after all fiscal year-end activity is posted.

RECOMMENDATION NO. 12:

WE RECOMMEND THE UNIVERSITY ESTABLISH A PROCEDURE TO PROPERLY VALUE ITS LIBRARY COLLECTION.

RESPONSE NO. 12:

WE CONCUR. The University Library administration has developed new procedures to assure compliance with generally accepted accounting principles with respect to the library valuation. When holdings are withdrawn from the Library

inventory, the cost of the material withdrawn will be used, based upon one of three sources: 1) the Library's written records, 2) the Library's electronic records, or 3) the *Bowker Annual of Library and Book Trade Information*, the industry standard guide.

For test comparison purposes, we utilized the new methodology to compare our FY93 original figures for total Library holdings with the new figures. It was determined that our holdings were actually under-reported by approximately three tenths of one percent in total for FY93.